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SAVANNA

RESOURCES LTD.

1985
ANNUAL REPORT

Corporate Information

Directors	John M. Alston, Calgary Jan M. Alston, Calgary Ross P. Alger, Calgary
Officers	John M. Alston, President Jan M. Alston, Secretary-Treasurer
Subsidiaries	Baretta Mining, Inc. Island Copper Company
Auditors	Dunwoody & Company, 3rd Floor, 1015 - 4th Street S.W., Calgary, Alberta T2R 1J4
Bankers	Continental Bank of Canada Calgary, Alberta
Registrar & Transfer Agent	Guaranty Trust Company of Canada, #370, 401 - 9th Avenue S.W., Calgary, Alberta T2P 3C5
Solicitors	Beaumont Proctor #2200, 411 - 1st Street S.E. Calgary, Alberta T2G 5E7
Head Office	#880, 555 - 4th Avenue S.W. Calgary, Alberta T2P 3E7
Listed	Alberta Stock Exchange
Symbol	SV

President's Statement

During the year the Company initiated a major program of property acquisitions in the United States. Mining properties are currently out of favour and we have exceptional opportunities to add to our inventory of precious and strategic metals at minimal cost. Through our purchase of a 92% interest in Baretta Mining Inc. we now control the Turner Albright property in southern Oregon, containing one of the few deposits in the United States with drill-indicated cobalt reserves, along with substantial values in gold, zinc and copper. As political conditions in Africa continue to deteriorate, domestic sources of cobalt in America are becoming recognized as critical to the security of the United States. For this reason the U. S. Bureau of mines has received authorization to commence a research program on the metallurgy of the Turner Albright ore.

In southern California, the Company has obtained mining rights to the Santa Rosa former silver producer on very favorable terms. Geological studies of the underground workings have revealed there is potential for additional ore shoots similar to the one mined previously.

Subsequent to the year end the Company has negotiated the acquisition of a promising chromium property in Oregon.

Exploration of the Company's gold properties on Courageous Lake in the Northwest Territories is expected to accelerate with two new joint venture agreements signed since the year end. Cominco Ltd. has already completed a geophysical program with positive results on lands just north of Courageous Lake and have informed us that they plan diamond drilling early next year. Further north, Highwood Resources Ltd. is currently completing a geophysical program on our Jax Lake block with diamond drilling planned for next summer.

During the year funding of our activities was provided by private investors exercising options on 297,500 shares and the private placement of 1,155,000 shares at \$0.50 per share in connection with property acquisitions. A further 9,841,000 shares were issued at \$1.00 per share for a 92% interest in Baretta Mining Inc.

In the coming year it is our hope that the Turner Albright property will be advanced significantly towards a production decision by the metallurgical research currently underway and to this end we shall be working closely with the U. S. Bureau of Mines.

In the meantime I would like to thank the shareholders for their support and interest.

John M. Alston,
President

Calgary, Alberta
November 5, 1985

MINING EXPLORATION**Turner Albright Polymetallic Deposit, Oregon**

The Turner Albright massive sulphide deposit is located in southwestern Oregon just north of the California border some forty miles by highway from the deep water port of Crescent City. In addition to major values in gold, zinc, copper and silver the deposit is one of the few in North America with drill indicated reserves of cobalt.

Over 60,000 feet of diamond drilling have established reserves of 3,300,000 tons with a gross metal value at current prices of \$315,315,000 (U.S.) utilizing a cut-off grade of \$75.00 (U.S.) per ton. The ore body grades as follows:

0.114 oz. per ton gold	(35.91)	=	\$111,903,000 in gold
0.443 oz. per ton silver	(2.74)	=	9,042,000 in silver
1.462% copper	(17.54)	=	57,882,000 in copper
3.325% zinc	(29.26)	=	96,558,000 in zinc
0.055% cobalt	(12.10)	=	39,930,000 in cobalt

Total gross value	\$315,315,000 (U.S.)
	=====

Recent deep penetrating Pulse EM indicates that only a small portion of the deposit may have been drilled and that it is still open downdip to the east with potential for at least doubling the reserves.

The Company through its subsidiary, Baretta Mining, Inc., owns a 46% interest in the property and has the option to purchase an additional 25%.

The U.S. Bureau of Mines, under its Minerals Availability Survey has identified the Turner Albright as a significant potential source of cobalt, resulting in its inclusion in their Critical Metals Program. They have already commenced metallurgical studies with the objective of establishing the appropriate ore dressing and smelting techniques. Plans include a comprehensive feasibility study. The company will be working closely with the U.S. Bureau of Mines on this program over the next year.

Turner Albright Satellite, California & Oregon

These 300 claims surrounding and to the south of the Turner Albright property are being explored by Rayrock Mines, Inc. under a farmout agreement. Rayrock have earned a 25% interest and by expending a further \$1,250,000 (U.S.) over the next seven years may earn a further 50% interest. Baretta Mining, Inc. holds the remaining interest.

Island Mountain, California

Baretta Mining, Inc. owns outright the Island Mountain gold-copper property in Trinity County, California, 35 miles east of Garberville.

During the period 1915 - 1930, a total of 131,000 tons of ore mined from the property averaged 3.296% copper, 0.0651 oz./ton gold and 1.092 oz./ton silver. Since 1930 no production has occurred. Recent exploration has included rotary and diamond drilling. Four diamond drill holes encountered significant intersections of massive sulphide mineralization with one intersecting 29 feet of sulphides and terminating in mineralization below the old workings. Assays from this section include 14 feet of high grade averaging 3.3% copper and 0.24% oz./ton gold and 15 feet of lower grade mineralization. Over 6,000 tons of ore have been stockpiled on the south side of the river. Preliminary metallurgical work completed on the several types of mineralization present demonstrated that they are amenable to normal concentration methods, with acceptable recovery of free gold by gravity concentration.

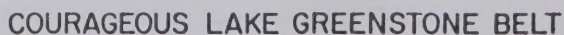
Santa Rosa, California

Savanna holds the mining rights to the 34 claim Santa Rosa property in Inyo County, California. The property includes the Santa Rosa Mine from which recorded production in excess of 80,000 tons grading 11.6 oz./ton silver, 15.4% lead and 6.2% zinc was extracted from a series of steep parallel veins and, latterly, one major, near-vertical ore shoot. An examination of the underground workings by the Company's consultants, R.T. Heard and Associates, reveals that they are open and that at the bottom of the stope in the main shoot the mineralization was yielding 200 tons per vertical foot grading, based on the last five shipments, 21.9 oz./ton silver, 17.3% lead, 5.3% zinc. Experience obtained from nearby mines at Darwin and Cerro Gordo suggests this mineralization may continue for a further 1000' in depth.

Other mineralized zones encountered in the underground workings may indicate the presence of other vertical shoots previously ignored during the early mining on the dipping vein system. Initial work planned for the project will be concentrated on underground diamond drilling to confirm the extension to depth of the main mineralized shoot but will also include a detailed geological assessment of other targets.

Courageous Lake, Northwest Territories

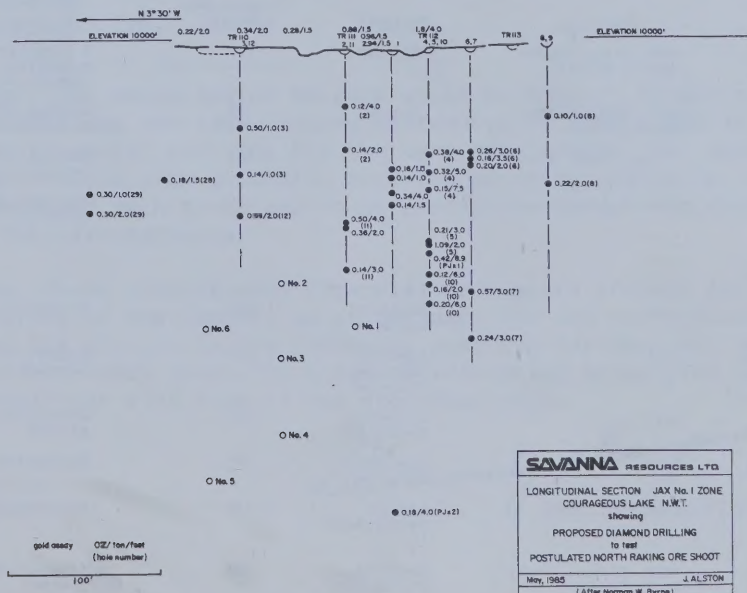
Since 1973, the Company has been involved in gold exploration in the Courageous Lake area in the District of Mackenzie. At the present time Savanna holds varying interests in some 5,350 ha (13,241 acres) of mining claims and leases



During the past year, geophysical and geochemical exploration was extended from the Tundra discoveries over the south part of the Savanna properties. Six shallow holes drilled in early 1985 confirmed geophysical evidence that the band of carbonates associated with the second Tundra discovery extends onto the Savanna ground. Grab samples from the vicinity of mud boils near Sour Lake in the heart of Savanna's holdings yielded assays from 0.13 oz. gold per ton up to over 4 oz. per ton indicating that the carbonate unit constitutes a highly prospective target for gold mineralization. The geophysical conductor extending to the north of this showing remains to be drilled.

South of the Sour Lake showing the Company has optioned a block of its holdings to Cominco. Under the agreement Cominco, by paying \$200,000 and completing \$1,250,000 in exploration by Dec. 31, 1989, may earn a 55% interest in 880 ha (2200 acres).

Further north Savanna has entered into a joint venture agreement with Highwood Resources Ltd. covering the Jax gold deposits where extensive shallow drilling has defined two gold-mineralized zones. Assays of 0.5 to over 1 oz. gold per ton over one to five foot widths were reported from the earlier holes. More recently a diamond drill hole on the No. 1 zone was assayed in its entirety and yielded 0.18 oz. per ton over 55' indicating potential for a large tonnage of this type of material. The drilling to date suggests the presence of north-raking ore shoots, typical of gold deposits in the Courageous Lake area, such as the old Tundra mine and Giant Yellowknife's Salmita producer. Grades of the Salmita ore shoots are quite high with Salmita running a mill head grade in excess of 0.9 oz. gold per ton. Proven reserves at Salmita are reported as 140,000 tons grading 0.85 oz. gold per ton. Highwood by completing a \$1,500,000 program may earn a 60% interest in the Jax block.



The Company also holds various interests in an additional 360 hectares (890 acres) of claims in the Courageous Lake area. Two blocks in which the Company holds 25% and 75% interest have been farmed out to Placer Development in return for exploration work.

Triune Mountain, British Columbia

In the Triune Mountain area, south of Revelstoke, British Columbia the Company is exploring a 200 hectare claim block containing the Morningstar and IXL deposits. These gold-silver-lead-zinc deposits were discovered early in the century but were until recently too inaccessible to attract serious attention. With the opening up of logging operations in the area, access is now feasible.

The IXL vein, where exposed in the old workings, has yielded assays ranging up to 1.26 oz. gold per ton, 137 oz. silver per ton, and 28% lead. A seven ton test shipment to the smelter is reported to have assayed 1.14 oz. gold per ton, 55 oz. silver per ton, 27% lead and 3% zinc. As ore shoots in the area usually persist over several hundred feet vertically, the mineralization in the IXL Morningstar system has the potential for substantial extension to depth.

An airborne electromagnetic survey flown over the Savanna ground has assisted in interpreting the structural controls and has identified a number of additional anomalies for investigation.

SUMMARY OF ACTIVE PROPERTIES

<u>Area</u>	<u>Resource</u>	<u>Partners</u>	<u>Company Net Interest</u>	<u>Status</u>
Turner Albright, Oregon	Gold, Zinc, Copper, Cobalt, Silver	Rayrock	46% + option on 25%	3.3 Million tons drill-indicated; geophysics indicates wide open downdip to east
Turner Albright, Satellite	Gold, Zinc, Copper, Cobalt, Silver	Rayrock	23%	Geochem and geophysics completed, some anomalies drilled
Santa Rosa, California	Silver, Lead, Zinc	-	92%	Underground mapping done, diamond drilling planned
Island Mountain, California	Gold, Copper, Zinc	-	92%	Ore body open to depth below old workings
Courageous Lake, N.W.T.				
Sour Lake	Gold	American Chromium	80%	Geophysics and geochemistry completed
South Sour Lake	Gold	Cominco American Chromium	25%	Geophysics completed, diamond drilling planned
Jax	Gold	Highwood Resources	25%	Geophysics underway, diamond drilling planned
South Tundra	Gold	American Chromium	80%	Geophysics completed
Colray Block	Gold	Placer Development	8.25%	Reconnaissance work
Triune Mountain, B.C.	Gold, Silver, Lead, Zinc, Copper	American Chromium	80%	Rehabilitation of underground workings planned

CONSOLIDATED STATEMENT OF INCOME AND DEFICIT
FOR THE YEAR ENDED 30 JUNE 1985

	<u>1985</u>	<u>1984</u>
REVENUE		
Oil and gas royalties	\$ 33,660	\$ 33,834
Interest	14,812	13,368
	<u>48,472</u>	<u>47,202</u>
EXPENSES		
Depletion	700	700
General and administrative, schedule	78,861	88,342
	<u>79,561</u>	<u>89,042</u>
NET LOSS FOR THE YEAR	(31,089)	(41,840)
Deficit, beginning of year	<u>(4,773,443)</u>	<u>(4,731,603)</u>
DEFICIT, END OF YEAR	<u><u>\$(4,804,532)</u></u>	<u><u>\$(4,773,443)</u></u>
EARNINGS (LOSS) PER SHARE, note 10		

AUDITORS' REPORT

TO THE SHAREHOLDERS
OF SAVANNA RESOURCES LTD.

We have examined the consolidated balance sheet of Savanna Resources Ltd. as at 30 June 1985 and the consolidated statements of income and deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at 30 June 1985 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta
31 October 1985

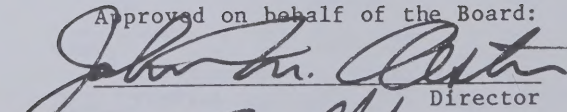
Donnelly & Company
CHARTERED ACCOUNTANTS

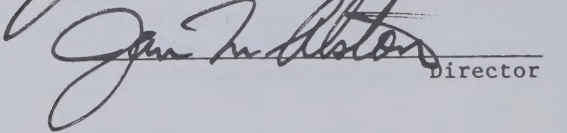
CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 1985

ASSETS

	<u>1985</u>	<u>1984</u>
CURRENT		
Cash	\$ 67,586	\$ -
Accounts and advances receivable	4,674	8,964
Due from affiliated companies, note 3	-	729,300
	<u>72,260</u>	<u>738,264</u>
INVESTMENT IN AFFILIATED COMPANIES, at cost, note 4	<u>478,466</u>	<u>120,078</u>
FIXED ASSETS, notes 1, 5 and 6	<u>12,169,185</u>	<u>779,380</u>
	<u>\$12,719,911</u>	<u>\$ 1,637,722</u>

Approved on behalf of the Board:


Director


Director

LIABILITIES

	<u>1985</u>	<u>1984</u>
CURRENT		
Bank indebtedness, note 7	\$ 82,500	\$ 607,049
Accounts payable and accrued liabilities	251,130	44,098
Note payable and accrued interest, note 8	225,808	196,592
Due to affiliated companies, note 3	28,544	-
Current portion of long-term debt	301,733	-
	<u>889,715</u>	<u>847,739</u>
MINORITY INTEREST	<u>594,052</u>	<u>-</u>
	<u>1,483,767</u>	<u>847,739</u>

SHAREHOLDERS' EQUITY

SHARE CAPITAL, note 9	16,040,676	5,563,426
	<u>(4,804,532)</u>	<u>(4,773,443)</u>
DEFICIT	<u>11,236,144</u>	<u>789,983</u>
	<u>\$12,719,911</u>	<u>\$ 1,637,722</u>

RELATED PARTY TRANSACTIONS, note 12

CONTINGENT LIABILITIES, note 13

SUBSEQUENT EVENTS, note 14

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED 30 JUNE 1985

	<u>1985</u>	<u>1984</u>
SOURCE OF FUNDS		
Proceeds on share capital issued	\$ <u>636,250</u>	\$ <u>331,250</u>
APPLICATION OF FUNDS		
Operations		
Net loss for the year	31,089	41,840
Item not involving funds		
Depletion	<u>(700)</u>	<u>(700)</u>
	30,389	41,140
Increase in investments in affiliates	14,805	20,078
Acquisition of mining claims and properties	873,063	225,000
Acquisition of petroleum and natural gas properties and development thereon	86	7,030
Decrease in working capital arising from acquisition, note 2	<u>425,887</u>	<u>-</u>
	<u>1,344,230</u>	<u>293,248</u>
INCREASE (DECREASE) IN WORKING CAPITAL FOR THE YEAR	(707,980)	38,002
Working capital deficiency, beginning of year	<u>(109,475)</u>	<u>(147,477)</u>
WORKING CAPITAL DEFICIENCY, END OF YEAR	\$ <u>(817,455)</u>	\$ <u>(109,475)</u>
Represented by		
Current assets	\$ 72,260	\$ 738,264
Current liabilities	<u>(889,715)</u>	<u>(847,739)</u>
	\$ <u>(817,455)</u>	\$ <u>(109,475)</u>

CONSOLIDATED SCHEDULE OF ADMINISTRATIVE EXPENSES
FOR THE YEAR ENDED 30 JUNE 1985

	<u>1985</u>	<u>1984</u>
Interest and bank charges	\$ 46,600	\$ 50,877
Listing fees	1,475	1,705
Management fees	15,000	27,000
Office	687	1,595
Printing costs	2,332	777
Professional fees	4,615	4,130
Transfer fees	8,152	1,335
Travel	-	923
	<u>\$ 78,861</u>	<u>\$ 88,342</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 1985

1. SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies of the Company:

(a) Principles of consolidation

These consolidated financial statements include the accounts of Baretta Mining, Inc. and Island Copper Company.

(b) Depreciation

Depreciation is computed on a straight-line method, based on the estimated useful lives of individual assets ranging from three to ten years.

(c) Petroleum and natural gas properties

The Company follows the full cost method of accounting for each major area of interest wherein all costs relative to the exploration for and development of oil, gas and related reserves, including related overhead, are capitalized. Gains or losses upon sale or disposition of properties are only recognized when a major area of interest is disposed of or when the proceeds on sale of a partial interest in a major area exceeds the net costs accumulated in the cost pool.

The provision for depletion is computed under the unit-of-production method based on the estimated proven oil and gas reserves of the Company as determined by the Company and substantiated periodically by independent professional engineers.

(d) Mining claims and properties

The Company follows the full cost method of accounting wherein all costs relative to acquiring, exploring and developing mining claims and rights, including related overhead, are capitalized. The proceeds received for a partial disposition are credited against the costs. Until the properties are abandoned, sold or placed on production no gain or loss is recognized. The net cost of properties surrendered or abandoned are written off in the year of surrender. The net costs of the remaining properties are to be depleted based on a composite unit-of-production method, based on the total estimated recoverable reserves, on commencement of production by the Company.

The value at which mineral claims and properties are carried may not be indicative of the underlying value of the properties, as the activities of the Company and its subsidiaries are exploratory in nature.

(e) Foreign exchange

Foreign currencies have been translated to Canadian dollars as follows: revenue, costs and expenses at the average rates of exchange during the year, non-monetary assets and liabilities at the rates in effect at dates of the transactions, and monetary assets and liabilities at rates in effect at the end of the year.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 1985

2. ACQUISITION OF BARETTA MINING, INC.

On 29 June 1985, the Company obtained controlling interest in Baretta Mining, Inc. The net assets acquired and values assigned thereto are as follows:

Property at net book value	\$ 8,769,313
Increase to fair value	2,091,626
	<u>10,860,939</u>
Other assets and liabilities, net	(594,052)
	<u>10,266,887</u>
Working capital deficiency	(425,887)
	<u>\$ 9,841,000</u>

3. DUE FROM (TO) AFFILIATED COMPANIES

As at 30 June the following was owing from (to) an affiliated company:

	<u>1985</u>	<u>1984</u>
American Chromium Limited	\$(28,544)	<u>\$729,300</u>

4. INVESTMENT IN AFFILIATED COMPANIES

	<u>1985</u>	<u>1984</u>
American Chromium Limited convertible debenture at prime plus 1%, maturing 1985	\$100,000	\$100,000
American Chromium Limited		
687,197 Class "A" voting shares	343,596	12
137,943 Class "B" non-voting shares	34,870	20,058
Baretta Mining, Inc. common shares	-	<u>8</u>
	<u>\$478,466</u>	<u>\$120,078</u>

The convertible debenture bears interest at a maximum of 15% per annum payable semi-annually, and is convertible, prior to maturity, at the option of the holder, into American Chromium Limited Class "B" non-voting shares at prices ranging from \$1.50 to \$2.50 per share. Interest may be paid, at the option of American Chromium Limited, by issuing Class "B" non-voting shares at a value 10% less than the average closing trading price on the Alberta Stock Exchange for the last 10 trading days of the previous month.

5. FIXED ASSETS

	<u>1985</u>		<u>1984</u>	
	<u>Cost</u>	<u>Accumulated Depreciation and Depletion</u>	<u>Cost</u>	<u>Accumulated Depreciation and Depletion</u>
Mining claims and properties	\$11,684,898	\$ 23,097	\$425,000	\$ 23,097
Petroleum and natural gas properties	378,263	1,400	378,177	700
Land	81,193	-	-	-
Buildings	69,685	29,685	-	-
Equipment and furniture	40,122	30,794	-	-
	<u>12,254,161</u>	<u>84,976</u>	<u>803,177</u>	<u>23,797</u>
Cost less accumulated depreciation and depletion	<u>\$12,169,185</u>		<u>\$ 779,380</u>	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 1985

6. MINING CLAIMS AND PROPERTIES

- (a) During the year the Company purchased an undivided 10% interest in certain mineral claims and mining leases located in the Courageous Lake Area from American Chromium Limited, its parent company, for a consideration of \$350,000, satisfied partly by \$290,000 cash and partly by issuing 200,000 shares of the Company at 30¢ each from its treasury. In addition, the Company granted its parent an option to purchase 300,000 shares of the company exercisable as follows:

- a) Before 3 April 1986 at \$1.00 per share
- b) Before 3 April 1987 at \$1.50 per share
- c) Before 3 April 1988 at \$2.00 per share
- d) Before 3 April 1989 at \$2.50 per share

Savanna also acquired the option to increase its interest to 80% exercisable as follows:

- 1) Option to purchase an additional 10% interest before 3 April 1989 for a consideration of \$650,000.
 - 1i) Option to earn an additional 50% interest by completing \$1,500,000 in work by 31 December 1986, and provided that cumulative expenditures by 31 December 1985 are \$1 million.
 - 1ii) Provided option (1i) is exercised, an option to earn an additional 10% by completing an additional \$500,000 in work by 31 December 1988.
- (b) The Company had a lease interest in the Turner Albright property located in Oregon, U.S.A. and during 1981 exercised its option to purchase the mining properties for \$500,000. At 30 June 1985 \$200,000 of the option price remains payable (see notes 5 and 11).

The Company entered into an agreement giving Rayrock Mines Inc. the option of earning a 50% interest in the Turner Albright property located in Oregon, U.S.A. by making payment on the note as described in note 5 and incurring expenditures on the property totalling \$2,800,000 by 1988. A 25% interest was earned by making \$750,000 in expenditures by 1 May 1985, but Rayrock relinquished their right to increase its interest to 50% under the agreement.

A new agreement was entered into which gives Rayrock the right to earn up to a 75% interest in the claims surrounding, but not including, the fee lands containing the sulphide deposit. In addition to the 25% already earned by Rayrock in these properties, an additional 25% may be earned as follows: for each \$10,000 of acceptable expenditures incurred before 31 May 1988 Rayrock will increase its undivided interest by 1%. If during this period Rayrock has acquired a 50% interest in total, then it will have the option for a further period ending 31 May 1992 to increase its interest by another 25% as follows: for each \$40,000 of acceptable expenditures incurred Rayrock will increase its undivided interest by 1%.

The fee lands at 30 June 1985 were owned 75% by the Company (see also note 11).

- (c) The Company owns a 100% undivided interest in the Island Mountain property located in California, U.S.A. Upon the property being put into production, the Company is required to remit to the vendors 28,000 American Chromium Limited's Class "A" voting common shares and 28,000 American Chromium Limited's Class "B" non-voting shares.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 1985

7. BANK INDEBTEDNESS

	<u>1985</u>	<u>1984</u>
Bank overdraft	\$ -	\$ 974
Bank loans and accrued interest	<u>82,500</u>	<u>606,075</u>
	<u>\$ 82,500</u>	<u>\$607,049</u>

The bank loans are secured by a general assignment of shares in an affiliated company, guarantees of affiliated companies, and a personal guarantee of a director.

8. NOTE PAYABLE

The note payable is to a director and bears interest at prime plus 2%, repayable on demand, and is secured by the American Chromium Limited debenture, shares of American Chromium Limited (150,000 of Class "A" shares and 100,713 of Class "B" shares) and the guarantee of a director.

9. SHARE CAPITAL

- (a) Authorized
During the year the authorized share capital was changed from 7,500,000 shares to an unlimited amount.

- (b) Issued
During the year the Company had the following share transactions:

	<u>Shares</u>	<u>Amount</u>
Issued at 1 July 1984	5,373,745	\$ 5,563,426
Issued pursuant to employee stock options	62,500	31,250
Issued on acquisition of Baretta Mining, Inc.	9,841,000	9,841,000
Issued pursuant to private placements	1,090,000	545,000
Issued pursuant to stock options	<u>200,000</u>	<u>60,000</u>
Issued at 30 June 1985	<u>16,567,245</u>	<u>\$16,040,676</u>

- (c) Employee Incentive Stock Option Plan

Effective 25 May 1984 the directors created an Employee Incentive Stock Option Plan for the Company. Under the plan the directors may grant the right to employees to purchase shares of the Company. The total number of shares optioned according to the plan may not exceed 400,000. The option price per share may not be less than the fair market value less an appropriate discount of the stock on the day the option is granted.

- (d) Warrants and Options

As at 30 June 1985 the following remained outstanding:

- i) pursuant to the Employee Incentive Stock Option Plan there remained outstanding options to purchase 125,000 shares at \$.50 per share expiring 30 May 1988.
- ii) pursuant to a private placement there remained outstanding a warrant to purchase 100,000 shares at \$.75 per share anytime before 28 November 1985.
- iii) pursuant to a private placement there remained outstanding a warrant to purchase 100,000 shares at \$.50 per share anytime before 5 October 1985 and another 100,000 shares at \$.60 per share anytime before 5 October 1986.
- iv) pursuant to a private placement there remained outstanding an option to purchase 105,000 shares at \$.50 per share anytime before 31 December 1985 and another 105,000 shares at \$.60 per share anytime before 31 December 1986.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 1985

10. EARNINGS (LOSS) PER SHARE

	1985	1984
Basic		
Income (loss) per share	<u>\$(.01)</u>	<u>\$(.01)</u>

11. INCOME TAXES

Under Canadian Income Tax Law, development and exploration expenditures are subject to certain restrictions in deductibility. Total expenditures of approximately \$1,477,000 (1984 - \$604,000) were available at 30 June 1985 to be carried forward and deducted in future years.

The Company has non-capital losses of approximately \$243,000 which may be carried forward to reduce future taxable income. The right to claim these losses expires \$182,000 in 1988, \$37,000 in 1991 and \$24,000 in 1992.

The subsidiary, Baretta Mining, Inc., has losses of approximately U.S. \$3,585,000 which may be carried forward to reduce its future U. S. taxable income. The right to claim these losses expires U.S. \$1,383,000 in 1996 U.S. \$578,000 in 1997, U.S. \$1,078,000 in 1998 and U.S. \$546,000 in 1999.

12. RELATED PARTY TRANSACTIONS

(a) On 5 June 1985, American Chromium Limited subscribed for 4,525,000 shares of Baretta Mining, Inc. at U.S. \$1.00 per share. Effective that date the Company issued 2,600,000 shares. On 29 June 1985 American Chromium Limited transferred 9,151,070 shares of Baretta Mining, Inc. and a share subscription of 1,925,000 to the Company.

(b) A \$60,933, 18% note shown under current portion of long-term debt is payable to a director of the Company.

(c) Overhead charges of \$28,046 were charged by American Chromium Limited.

(d) The Company entered into an agreement with American Chromium Limited, its parent company, to purchase a 50% interest in mining claims in the Triune Area. The transactions and terms of the agreement are as follows:

- i) The Company made a cash payment of \$375,000 to American Chromium Limited.
- ii) American Chromium purchased 700,000 shares of the Company for \$350,000 and the Company granted American Chromium an option to purchase a further 700,000 shares of the Company at \$.50 per share on or before 30 June 1986, or \$.75 per share on or before 30 June 1987, or \$1.00 per share on or before 30 June 1988.
- iii) In order to maintain its interest in the property the Company must expend funds on the property according to the following schedule:

<u>Cumulative Expenditure Required</u>	<u>Date</u>
\$100,000	31 December 1985
250,000	31 December 1986
450,000	31 December 1987
750,000	31 December 1988

If the Company fails to make any minimum expenditures it shall forfeit all of its interest.

- iv) The Company may elect to contribute 100% of further work expenditures until an additional \$750,000 has been spent or contribute pro-rata in further work expenditures as to its 50% property interest. If this commitment is fulfilled within two years, then another 30% interest in the property would be assigned to the Company.

(e) The Company received interest income of \$14,812 from American Chromium Limited on a \$100,000 debenture.

(f) Pursuant to a warrant the parent company purchased 200,000 treasury shares of the Company for cash consideration of \$60,000.

(g) Pursuant to an employee incentive stock option plan in the Company 62,500 treasury shares were issued to employees for cash consideration of \$31,250.

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13. CONTINGENT LIABILITIES

- (a) The Company sold 343,500 shares of American Chromium Limited during 1984 and issued options entitling the holder to purchase a future 343,500 shares at \$.45 per share before 30 November 1985 and 343,000 shares at \$.50 per share before 30 November 1986. All 1,030,500 shares have been pledged as security for loans of affiliated companies. If the shares cannot be delivered to the purchaser, settlement will be made by an equal number of Savanna Resources Ltd.'s shares. The Company will purchase the necessary shares at fair value for satisfaction of the option from American Chromium Limited. Delivery of the Savanna Resources Ltd. shares has been guaranteed by American Chromium Limited.
- (b) The Company has a contingent liability to issue shares in respect of the Island Mountain property as more fully described in note 6(c).
- (c) The Company has guaranteed certain bank loans of American Chromium Limited up to a maximum of \$650,000. As at 30 June 1985 the loans outstanding amounted to \$515,349. The loans are secured by a general assignment of book debts, a fixed charge on mining properties and a floating charge on all other assets of the Company.

14. SUBSEQUENT EVENTS

- (a) Subsequent to the year-end the Company and American Chromium Limited entered into an agreement with Cominco Ltd. to allow Cominco Ltd. to purchase an undivided 55% interest in certain Courageous Lake properties. Cominco is committed to make firm payments and may exercise the option by making all the option payments and expenditures as follows:

Non-cumulative cash payments to the Owners on or before the following dates:

<u>On or Before</u>	<u>Non-cumulative Cash Payments</u>
i) signing	\$ 15,000 (firm)
ii) 1 January 1987	25,000 (optional)
iii) 1 January 1988	35,000 (optional)
iv) 1 January 1989	50,000 (optional)
v) 1 January 1990	75,000 (optional)

Cumulative expenditures on or before the following dates:

<u>On or Before</u>	<u>Cumulative Expenditures</u>
i) 31 March 1986	\$ 50,000 (firm)
ii) 31 December 1986	150,000 (optional)
iii) 31 December 1987	300,000 (optional)
iv) 31 December 1988	500,000 (optional)
v) 31 December 1989	1,250,000 (optional)

- (b) Subsequent to the year-end the Company received U.S. \$150,000 from Rayrock Mines Inc. These funds plus the U.S. \$50,000 advance from Rayrock Mines Inc. prior to year-end were used to pay the note secured by the Turner Albright property.

In exchange, the Company has transferred a 25% ownership of the fee lands portion of this property to Rayrock Mines Inc., with an option to repurchase this 25% interest for U.S. \$158,000 on or before 28 February 1986.

- (c) Subsequent to the year-end the following share options and warrants were exercised:

155,000 shares at \$.50 per share

15. SEGMENTED INFORMATION

Financial information segmented according to geographical areas is:

	1985			
			Adjustments on	
	<u>Canada</u>	<u>United States</u>	<u>Consolidation</u>	<u>Consolidated</u>
(Loss) for the year	\$ <u>(31,089)</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>(31,089)</u>
Identifiable assets	1,510,850	8,521,969	2,091,626	12,124,445
Corporate assets				<u>595,466</u>
Total assets				<u>\$12,719,911</u>
	1984			
(Loss) for the year	\$ <u>(41,840)</u>	<u>-</u>	<u>-</u>	\$ <u>(41,840)</u>
Identifiable assets	788,344	-	-	788,344
Corporate assets				<u>849,378</u>
Total assets				<u>\$ 1,637,722</u>

